

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. # Ranking Democratic Member

214 O'Neill HOB # Washington, DC 20515 # 202-226-7200 # www.house.gov/budget_democrats

May 24, 2001

Long-Term Budget Estimates are Unreliable

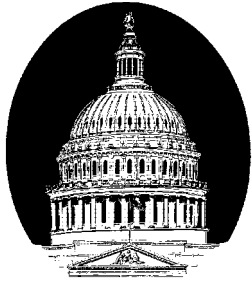
Dear Democratic Colleague:

The attached brief House Budget Committee Democratic staff report discusses the unreliability of long-range budget surplus forecasts. Our experience over the past two decades indicates that reality has often been far different from the projections of even the best and most unbiased forecasters. It follows that we must be especially prudent in relying on future estimates.

As you prepare to communicate with your constituents on the momentous budget policy decisions of this Congress, I hope that this analysis will be helpful. Please feel free to contact the Budget Committee Democratic staff if you have any questions.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member



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Budget Forecasts Are Unreliable

If CBO has learned any lesson from twenty-five years of projecting the budget, it is that budget projections are uncertain and can err by wide margins. All forecasts are fallible, and the longer the forecast, the greater the risk.

In March 1981, CBO projected its estimates of the Reagan budget. At that time, CBO forecast only the fiscal year in progress and three future years, but for those four years, CBO underestimated the deficit by \$395 billion. For that time, those differences were enormous. CBO's projecting errors over 1981-1984 equaled 2.9 percent of GDP. ***In fiscal year 1983 alone, CBO's projection error was 5.3 percent of GDP — equivalent to almost \$600 billion in today's economy.***

CBO first published its ten-year budget projections in January 1992 in its annual outlook. CBO forecast cumulative budget deficits of \$2.813 trillion over the ten year period 1993 - 2002. Congress later enacted deficit-reduction legislation (OBRA 93 and BBA 97) that took \$1 trillion off these deficits, by CBO estimates. CBO now projects that by the end of 2002, the results since 1993 will add up to a net surplus of about \$200 billion. ***In other words, CBO's ten-year budget projection was off by \$1.8 trillion.***

This is not to disparage CBO's work, but to point out the enormous variation to which the budget forecasts are subject.

CBO's recent budget re-estimates have shown a similar variation — which means that large re-estimates, perhaps in the opposite direction, are possible. Three years ago, in January 1998, CBO projected a cumulative ten-year budget surplus of \$660 billion. Two years ago, CBO projected a cumulative surplus of \$2.565 trillion. One year ago, CBO projected a \$3.152 trillion surplus. And this year, CBO has projected a cumulative ten-year budget surplus of \$5.610 trillion. ***Over the past year alone, CBO has increased its surplus projection by \$2.5 trillion. Over the past three years, CBO has increased its surplus projection by almost \$5 trillion —***

almost \$2 trillion with each passing year. Similar re-estimates could occur again, going in either direction.

The most recent re-estimates have all been favorable, but that doesn't mean that future re-estimates will move in the same direction. Just think about the experience of 1981. And the stakes are higher now than in 1981. If the projection errors of the 1980s recur, with the baby boomers soon to retire, we will not have ten to twenty years to correct our mistakes, and the consequences could be dire.

